

Market Analysis

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Inside Market Analysis

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Summary and Recommended Investment Strategy.

Our stockmarket Forecasts have slipped slightly, but are still Neutral. Remain fully invested in the recommended Australian and New Zealand shares.

Investment Outlook.

Most world economies slipped into recession during 2001, but despite this unfavourable global environment the NZ economy has performed quite well. To most people that would be "Good" news - but long term readers of this newsletter will know that "Good" news is often "Bad" news for the stockmarket . . .

Firstly, economic growth *could* be inflationary . . . so the Reserve Bank has stepped in, raising interest rates to kill growth and inflationary expectations before either can become established.

Secondly, the global downturn has been most severe in the technology sectors. The NZ economy has held up well as it is dominated by old economy, low growth, low profit margin *agricultural* businesses, with little exposure to new economy, high growth, high profit margin technology or knowledge based businesses.

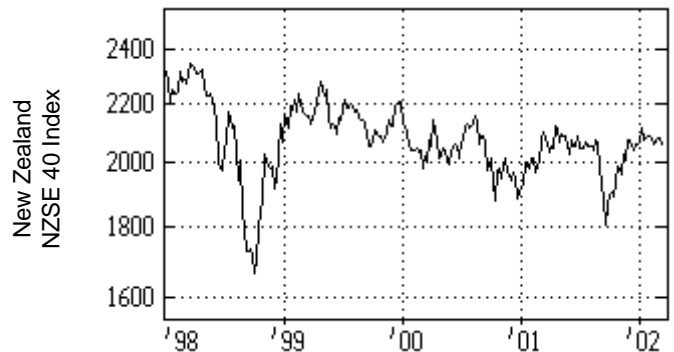
So the NZ economy looks good during a global technology downturn, but won't produce long term wealth or offer the best investment opportunities for investors.

The Reserve Bank's view on inflation is also flawed. Auckland property appreciation is not caused by inflationary expectations or speculation - but by immigration. A house of similar size and quality to a \$3-400,000 property in Auckland would cost *many* times that in Hong Kong or Taiwan. No amount of interest rate increases will stop immigrants from buying this *cheap* dream home in Auckland. But high interest rates do depress business activity and growth, while boosting the exchange rate and encouraging the consumption of cheap imports.

Our Forecasts for both the Australian and NZ stockmarkets remain Neutral, so we remain fully invested in shares. Our portfolio continues to target small, emerging growth companies with a competitive advantage in their niche market. We also invest long term in shares with low valuations, where *insiders* are buying and which are appreciating in value.

Stockmarket Forecasts

	One-Month	One-Year
Australia:	57% (Neutral)	61% (Bullish)
New Zealand:	54% (Neutral)	47% (Neutral)



Recommended Investments

CDL Investments' revenues for the year to December were down 23.9% to \$20.3 million and trading profits fell 81.6% to just \$748,000 (0.4 cents per share). In addition there was a \$1,012,000 loss on the sale of a business. No dividend will be paid.

Property services subsidiary **Knight Frank NZ** performed poorly, trading at a loss of about \$0.45 million and was sold realising the \$1 million loss.

The core property development business sold only 163 residential sections, down 20.0% on the previous year. Despite the poor result, property sales "built during the latter part of 2001" and "section sales have been particularly strong in the first two months" of the new financial year.

CDL Investments remains in a strong financial position - so is able to ride out fluctuations in the

property development market. Interest bearing debts total \$10.9 million while Shareholders Equity is \$39.2 million. Despite the downturn in business during 2001, the company also managed to generate a strong operating cash flow of \$3.2 million.

"Hold" CDL Investments shares for recovery.

Colonial Motor Company experienced strong revenue and profit growth - helped by the export boom and demand for extra-heavy trucks. This is a sector in which the company specialises through **Southpac Trucks** and **Trucks South**.

Revenues for the six months to December rose 12.6% to \$187.9 million while profits soared 74.3% to \$3,520,000 (12.6 cents per share). The interim dividend was raised 50.0% to 9.0 cents.

Operating cash flows

(Continued on Page 4)

Portfolio of Recommended Investments

CURRENT ADVICE	Company	Initial Recommendation Code	- Date -	Price	Perfor- mance Forecast	Issued Shares (mil.)	Vola- tility Ratio	Price/ Sales Ratio	Price/ Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %
NZ Shares													
HOLD	CDL Investments Ltd	CDI	12/01/99	25	D	187.1	2.2	1.71	46	Nil	19	6.1	-2%
HOLD+	Cavalier Corporation	CAV	05/12/95	312	A	31.5	0.7	1.04	16	7.6	625	180.5	+158%
HOLD	Colonial Motor Company	CMO	10/11/92	150	B	27.9	0.7	0.21	14	8.2	256	219.8	+217%
HOLD+	Lyttelton Port Company	LPC	12/12/00	150	A	101.8	0.7	3.20	14	8.4	183	14.0	+31%
HOLD	Michael Hill Int'l Ltd	MHI	11/06/91	46*	A	38.6	0.6	1.05	20	4.3	515	90.0	+1215%
HOLD+	Nuplex Industries Ltd	NPX	11/02/97	350	C	58.6	0.8	0.46	13	7.0	318	59.0	+8%
HOLD	Renaissance Corp	RNS	13/08/96	85*	D	37.1	2.0	0.07	NE	Nil	35	7.4	-50%
HOLD+	Richina Pacific	RCH	03/11/95	119*	D	72.2	1.7	0.06	13	Nil	58	11.9	-41%
HOLD	South Port New Zealand	SPN	13/02/96	120	C	26.2	0.9	3.33	19	5.5	163	59.0	+85%
BUY	Steel & Tube Holdings	STU	08/08/00	146	A	87.8	0.9	0.66	17	8.1	295	42.0	+131%
BUY	Taylors Group Ltd	TAY	09/11/99	102	A	24.3	0.9	0.87	13	6.5	160	17.0	+74%
BUY	Wrightson Limited	WRI	13/01/98	83	B	134.1	1.4	0.21	14	11.1	108	21.8	+56%
Australian Shares (in Aust cents)													
HOLD+	Abigroup Limited	ABG	09/03/99	265	B	47.7	0.8	0.14	6	5.5	220	45.0	+0%
BUY	Atlas Pacific Ltd	ATP	14/05/96	73	A	78.7	1.4	3.33	9	8.3	48	4.0	-29%
HOLD	Auspine Limited	ANE	08/02/00	210	B	57.0	0.7	0.60	9	5.5	217	41.0	+23%
HOLD+	Austral Coal Ltd	AUO	16/01/01	19	A	82.7	1.2	0.64	12	Nil	62	Nil	+226%
HOLD-	Biron Capital Ltd	BIC	12/04/94	178	C	22.1	1.6	1.94	38	Nil	40	11.0	-71%
BUY	Brazin Limited	BRZ	11/12/01	160	A	116.4	0.9	0.70	25	5.2	242	8.5	+57%
BUY	Campbell Brothers Ltd	CPB	12/10/99	418*	A	38.8	0.5	0.56	13	5.3	570	55.5	+50%
BUY	Cellnet Telecommunicat	CLT	12/02/02	152	B	49.0	1.0	0.30	9	6.0	150	4.0	+1%
HOLD	Central Equity Ltd	CEQ	09/02/94	154	C	82.1	0.9	0.72	7	8.1	186	100.0	+86%
HOLD+	Commander Comm.	CDR	11/09/01	92	C	143.8	1.2	0.54	10	3.4	73	2.5	-18%
HOLD+	C.S.R. Limited	CSR	11/07/00	436	B	936.2	0.7	0.91	13	3.7	624	23.0	+48%
BUY	Julia Ross Recruitment	JRR	14/08/01	92	A	57.2	1.0	0.45	12	4.8	125	6.0	+42%
BUY	McPherson's Ltd	MCP	10/10/00	125	A	39.2	0.7	0.25	6	7.1	170	18.0	+50%
HOLD	Nufarm Limited	NUF	11/02/97	418*	A	155.1	0.8	0.43	12	4.6	390	88.3	+14%
HOLD+	OAMPS Limited	OMP	15/05/01	198	B	39.3	0.7	0.43	15	4.8	351	14.0	+84%
BUY	Skilled Engineering	SKE	12/03/02	126	C	84.2	0.9	0.22	NE	Nil	146	4.0	+19%
HOLD-	Thakral Holdings	THG	10/11/98	65	B	600.4	1.3	1.16	10	11.0	57	20.8	+20%
HOLD-	Toll Holdings ¹	TOL	08/09/98	240	A	68.4	0.5	1.35	45	0.9	3598	94.0	+1438%
HOLD	Utility Services Corp	USC	11/01/00	55*	C	95.7	1.5	1.07	0	6.9	58	11.0	+25%
HOLD	Vision Systems Ltd	VSL	10/11/98	69*	C	157.6	1.0	1.63	16	2.0	169	18.0	+171%
HOLD+	Volante Group Ltd	VGL	13/03/01	132	C	68.0	1.1	0.21	11	7.0	115	8.5	-6%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +124.5%. This is equal to an average annual rate of +34.5%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 33 current and 115 closed out) is +31.0%, compared with a market gain of +9.9% (by the SRC Total Return Index).

CURRENT ADVICE is either Buy, Hold+, Hold, Hold- or Sell. Hold+ indicates the most attractive shares not rated as Buy. Hold- indicates relatively less attractive issues.

* Initial Recommendation Prices adjusted for Share Splits, Bonus and Cash Issues.

(1) Toll Holdings notes (TOLG) last traded at 3575 cents.

Recommended Investments (Continued from Page 3) were \$10.8 million, allowing the company to reduce interest bearing debts to just \$14.8 million. With Shareholders Equity of \$77.7 million, Colonial Motor Company is in a very strong financial position.

The shares offer investors a high income yield as the company's policy is to distribute about 75% of trading profits. The low debt level, however, suggests that shareholders can also expect further special dividends and/or capital repayments as Colonial Motors accumulates surplus cash that is not needed in the business.

We have held Colonial Motor Company shares for 9½ years and this investment has repaid our initial cost 1½ times over with dividends, special dividends and capital repayments (excluding cash from the 1 for 10 share buy back at \$2.70 in early 2000). In addition, the shares have appreciated 70% in value. Overall we have better than *tripled* our money in Colonial Motors - and 2/3rds of those gains were in cash which we have re-invested in other investments (and earned further returns on our initial capital) over the last decade.

At 256 cents - and based upon last year's annual dividend rate of 14.0 cents - Colonial Motor shares offer a gross Dividend Yield of 8.2%. That is an attractive yield - and this year's dividend will probably be higher - so Colonial Motor Company shares remain a long term "Hold" for income.

Lyttelton Port Company - which we see as a steady, low risk, *high income* investment - has reported a small lift in revenues, up 5.5% at \$30.7 million, for the six months to December. Profits rose strongly, up 19.4% to \$7,828,000 (7.7 cents per share), and the interim dividend rose 7.1% to 3.75 cents.

Lyttelton Port Company shares are ideal for a retired investor seeking high current income - 8.4% gross. In addition, long term growth potential of 5-10% per annum will steadily raise this income and the capital value of this investment. Over the medium to long term, an investment in Lyttelton Port Company should earn a return of 10-15% after tax - which compares very favourably with the 4½% after tax return from a bank term deposit.

Some investors may ask "Why recommend a share with an expected 10-15% return when *Market Analysis* has earned *twice* that rate over the last 21 years?" Why do we recommend a share that will probably *lower* the average rate of return we earn from our share portfolio? The answer has to do with *minimising risks*.

Retired investors cannot afford to take high risks and suffer a significant capital loss. For these investors a relatively secure income and moderate growth is a good investment option.

Younger investors not needing current income and more aggressive investors seeking maximum capital appreciation *may* choose not to invest in Lyttelton Port shares - although we believe that low risk shares do have an important role to play in a high risk portfolio. Long term success in the stockmarket depends on being able to survive when things go wrong - and holding on to enough capital to rebuild your portfolio when it suffers a decline. Once or twice per decade the stockmarket will suffer a steep decline in value. And

quite often an *aggressive growth* company will go bust!

So a *high risk* portfolio needs to follow two rules:

Firstly, diversify very well (i.e. 20 shares is good, 40-50 is better). Some high risk shares will become worthless, but if you diversify widely you will get a few ten-baggers - any *one* of which will more than make up for a handful of companies that go bust!

Secondly, build your very high risk, volatile investments around a *core* of low risk and medium risk shares. Knowing that at least *some* of your capital is "safe" in low risk shares (e.g. Colonial Motors, Lyttelton Port) allows you to accept the very high risks involved in some other shares (e.g. Genetic Technologies).

Richina Pacific's revenues fell 10.7% to \$647.1 million in the year to December 2001. Trading profits of \$3,286,000 (4.6 cents per share) were down 29.9%. The company reported profits of \$7,028,000 in its first half, so traded at a loss of \$3,742,000 over the last six months. The group actually traded at break-even during the second half, except for a \$4 million provision for a doubtful debt relating to a customer of Mainzeal Construction. No dividend will be paid.

The company has also written down asset values by \$18.6 million, producing a bottom line loss of \$15.3 million for the year.

The second half trading losses partially reflect the impact of September's terrorist attacks on the demand and price for leather. As previously disclosed, demand fell in October and the company was left holding relatively high priced stocks and work in progress. The company now reports that "trading is returning to levels above that experienced in the first half of 2001" (i.e. when Shanghai Richina Leather generated earnings of \$5.5 million).

Investors need to look beyond the media headlines of a \$15.3 million loss as Richina Pacific's financial position has actually improved considerably over the last year. Cash flow from operations was \$8.6 million and \$47.3 million was raised from asset sales. Interest bearing debts of \$42.4 million have been repaid, leaving just a \$47.6 million mortgage on its *Mobil-on-the-Park* property investment. The company also has \$10.3 million (14 cents per share) of cash in the bank.

Two important factors, (1) the improved financial position (i.e. no debt, other than a mortgage on a property investment) and (2) a return to profitability in the current financial year, can only add up to one conclusion: Richina Pacific must be *very* close to declaring



a maiden dividend. This would clearly signal the improvements in the company's fundamentals to the stockmarket and should result in a significant re-rating of Richina Pacific's share price over the next year.

More aggressive investors could buy Richina Pacific shares now, but we are upgrading them to a "Hold+" and will upgrade them again to a "Buy" when a new uptrend becomes established.

Renaissance Corporation's Managing Director has purchased 1,755,000 shares on-market. This confirms our view that the shares are under-valued but they are still very *weak*, so we shall continue to rate them only a "Hold" at present.

Steel & Tube Holdings is planning to buy **Pipeline Supplies NZ** from **OneSteel** (which owns 51% of Steel & Tube) for \$11.7 million. Pipeline Supplies NZ generates annual revenues of \$15 million and earnings (before tax) of \$1.8 million, so Steel & Tube will be buying this business on a Price/Sales ratio of 0.80 and a Price/Earnings ratio of 10.

Australian Shares

(This section is in Australian currency, unless stated.)

Austral Coal was one of the first few companies to use new Australian Stock Exchange rules that allow a company to place "up to \$3000" worth of shares to each of its shareholders rather than make a regular pro-rata cash issue. The company's recent placement was made to shareholders as at March 14 - but, taking into account the three day settlement period, we *should* have advised new investors to buy Austral Coal shares by March 11 to participate in this placement! Sorry for the error - we will get those dates right next time!

We continue to expect Austral Coal's share price to weaken to around 50-55 cents over the next month as some investors sell their placement shares on the market.

Atlas Pacific lifted revenues 56.4% to \$11.3 million for the year to December 2001. Pre-tax profits rose 130.7% but the company has exhausted past tax losses so the net profit was up 68.8% at \$4,173,000. Earnings per share rose just 26.8% to 5.3 cents owing to the conversion of the convertible notes. A final dividend of 2.0 cents makes 4.0 cents (previously nil) for the year.

Atlas Pacific harvested 85,000 pearls in 2001, sold 65,890 pearls with 29,067 carried forward and sold in February this year. The company nucleated 238,000 oysters - considerably up on its budget of 150,000 - which it attributes to "moving from traditional Japanese methods to the introduction of our own new techniques for caring for recuperating oysters". This "major innovation in the industry" has reduced costs, raised survival rates *and* produced better quality pearls. Results from the company's Waigeo hatchery are "somewhat disappointing" this year but there is an "ample supply of spat" from another Indonesian hatchery where Atlas Pacific's hatchery manager is currently supervising production under a technical exchange arrangement.

At balance date the company held \$5,355,000 in cash (and had no significant debts) and has since received a further \$7.7 million from the sale of 42,700 pearls. The final dividend will require \$1.6 million - with a similar amount probably spent on operating expenses over the last three months. That leaves Atlas Pacific with a cash

hoard of about \$9.7-10.2 million (about 12-13 cents per share).

In addition to the 4.0 cents ordinary dividend, we received 0.9452 cents interest on our convertible notes last September - so this investment is starting to produce a high income return! Although we originally recommended Atlas Pacific shares in *Market Analysis* at 73 cents in May 1996, the shares quickly fell in value and most of our personal investments in this company (and most investments made by subscribers) were bought between 1998-2001 at prices between 15-32 cents. So 4.9452 cents of income over the last year is a *very healthy* cash return on those investments! Atlas Pacific may never look good on our *track record* but it has made a valuable contribution to building our investment wealth.

Based upon the company's revenue and profit projections - and our estimates of dividends and stockmarket valuations (see *Market Analysis* Issue 354, December 2001) - we believe Atlas Pacific shares will approximately *double* in value to 95-110 cents over the next 2-3 years. In addition, the company could pay dividends of 5-6 cents this financial year, 7½-9 cents in 2003 and 9½-11 cents in 2004. The shares have risen 45% since we published those predictions in December, but even at 48 cents still offer a very high income yield and excellent potential for further capital appreciation. Of course pearl farming does involve risks and profitability may fluctuate widely at times, so an investment in Atlas Pacific should be part of a diversified share portfolio.

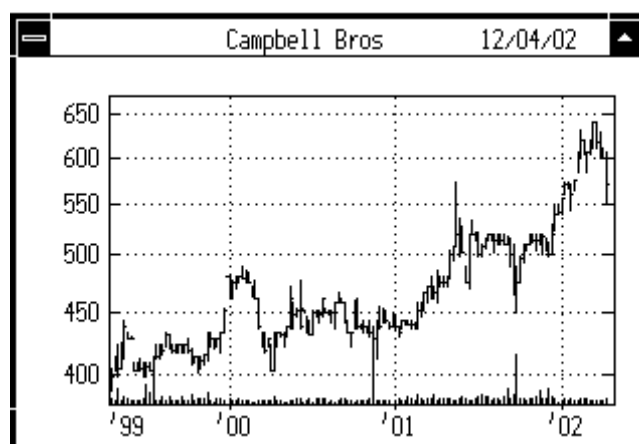
"Buy" (and Hold) Atlas Pacific for income and capital appreciation.

Biron Capital has reported revenues of \$4.1 million for the six months to December 2001 - but this was mainly from the sales of assets used in its old business. There was an overall loss of \$311,000 (minus 1.4 cents per share).

The company has made \$5.2 million in property finance loans - earning \$607,032 in application fees - but this income is spread over the life of the loan and only \$56,453 was treated as income in the reporting period. The new business also produced interest income of \$70,000.

The company raised \$1.2 million in early April from the placement of 3,322,060 shares at 37 cents. "Hold-".

Campbell Brothers will soon report for the year to March 31, but has warned that profits will be down 5-10% from last year.



(Continued on Page 6)

Recommended Investments (Continued from Page 5)

Cellnet Telecommunications experienced strong revenue growth - up 50.5% to \$188.7 million - for the six months to December 2001, but profits rose only 2.6% to \$5,133,000 (10.5 cents per share). The interim dividend will be raised 14.3% to 4.0 cents.

Insiders have been net sellers of Cellnet Telecommunications shares recently. The Managing Director, MAM Brookman sold 55,458 shares in late February and then sold 750,000 shares in March, reducing his holding to 5,351,943 shares. S Harrison also sold 750,000 shares in March, lowering his holdings to 3,852,917 shares. Recently appointed director, JJ Goldberg, however, purchased 750,000 shares and now owns 1,000,000 shares in the company. Overall there have now been two buys but four sells over the last year which is slightly unfavourable.

Central Equity has awarded **Multiplex Construction** the contract to build its \$116 million *Victoria Tower* after a competitive tender. Pre-selling began in October and the tower is now over 90% sold.

Central Equity has begun marketing its latest project, the \$160 million, 37-level *Melbourne Tower*, which is already 50% pre-sold.

Commander Communications has acquired the PABX service business of **Siemens** in NSW and Victoria. Commander Communications will pay a total of \$6.9 million - funded from cashflow and its unused banking facilities - for this business which it estimates will add \$3.8 million per annum to earnings before tax (or about \$2.6 million after tax).

While this is a small purchase it is an excellent acquisition for Commander Communications: This business is being bought very cheaply (i.e. on a Price/Earnings ratio of just 2.6) and Commander Communications already sells and services Siemens' *small* PABX products, so this expansion to sell and service *large* systems is a "logical growth opportunity".

The acquisition will also give Commander Communications 400 new medium to large corporate and government customers, expanding its customer base by about 11%.

Nufarm's revenues fell 5.8% to \$559.2 million for the six months to December, with profits down 56.0% to \$5,558,000 (3.6 cents per share). This drop, as explained last month, relates to the increased seasonal nature of the business - and the full year result is expected to show double digit growth. The interim dividend will be steady at 7.0 cents.

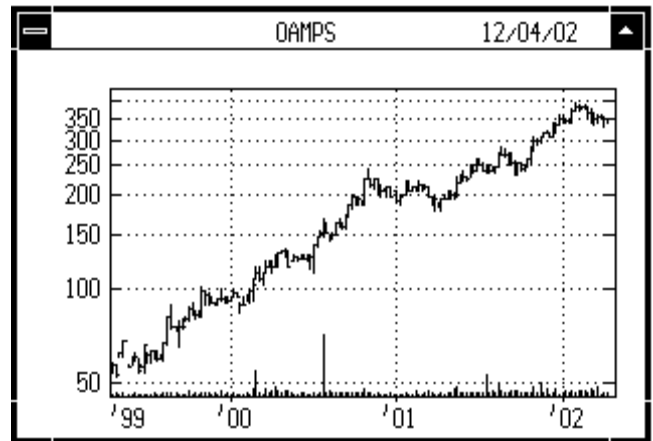
OAMPS continues to expand through acquisition:

The general insurance broking business of Kevin Savell in Perth and David Benn in Wagga Wagga, NSW, have been purchased and will add about \$5 million per annum to the group's premium revenue.

The company has also expanded its commercial transport insurance broking business with the purchase of **Carlington Insurance Brokers**, which will add a further \$7 million to premium revenues.

OAMPS is also negotiating to buy the **CGU-VACC Retail Brown & White Goods Extended Warranty** insurance business and existing contracts.

The company's *share purchase plan* is priced at 340 cents - which is just a small discount to market value - but probably worth taking up.



Thakral Holdings has been granted approval to build its \$100 million, 33-storey, 127 apartment tower above its **Oasis** shopping centre at Broadbeach, Gold Coast.

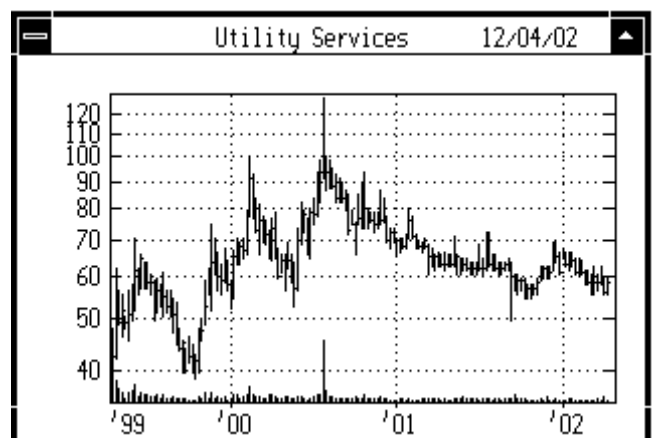
Toll Holdings convertible notes paid half yearly interest of 55.505 cents on April 2.

Utility Services Corporation generated revenues of \$19.5 million in the six months to December and a profit of \$1,153,000 (1.2 cents per share). A 2.0 cents interim dividend will be paid. Comparisons with the previous year are meaningless as the company sold its major business in that earlier period and is now re-investing the cash received.

Over the next two years the company plans to build revenues to \$200 million per annum, to earn profit margins (before interest and tax) of 10% (i.e. \$20 million) and to have a market capitalisation of \$200 million. The company expects the acquisition stage of this plan to be "substantially completed by the end of calendar 2002". If acquisitions are completed without increasing the issued capital - and Utility Services is actually *reducing* its issued capital through an on-market buy back - then achieving the \$200 million capitalisation would see the share price appreciate 3½-4 fold in value! The shares, however, show no signs of appreciating in value at this stage - so we continue to rate them as a "Hold" - but 58 cents clearly undervalues the company.

The company holds cash of \$37.5 million (39.5 cents per share), while interest bearing debts are just \$1.1 million.

In March 2002, Utility Services won a "substantial contract" - worth about \$5 million per annum until June 2004 - to provide asset inspection, monitoring, reporting and minor repairs to the powerline assets of **Ergon Energy**.



"Insider" Trades in Australian Shares

The first table below shows the number of Purchases and Sales of a company's shares by its Directors over the last twelve months (excluding "Neutral" situations where the number of Buyers and Sellers were equal). Shares where many "insiders" have been buying can outperform the market for up to two years, while shares where many "insiders" have sold can under-perform for a similar period.

"Insider" Indicators

Last 5 wks: 70.9% Buyers

Last 13 wks: 74.4% Buyers

Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers
A.P. Eagers	3-0	Catalyst Rec'mt	4-0	Haoma Mining NL	2-1	Mt Burgess Min.	8-0	Sharon Austen	2-0
AMCIL Limited	2-0	Cellnet Telecom.	2-4	HarTec Ltd	2-0	Mt Grace Res.	0-1	Silex Systems	4-3
AMP Ltd	1-0	Cent West Gold	0-1	Hardman Res.	3-1	Murchison Un.	2-0	Simsmetal Ltd	0-4
ANZ Bank	5-0	Cent. Kalgoorie	0-1	Harvey Norman	0-4	My Casino Ltd	1-0	Sirocco Res.	3-0
APN News Media	1-0	Centennial Coal	6-0	Harvest Road	3-0	Nat'l Foods	6-3	Skilled Eng.	2-0
ARC Energy	6-0	Chaos Group Ltd	1-0	Healthscope	7-0	Nat'l Aust Bank	10-0	Snack Foods Ltd	1-0
Abigroup Ltd	1-0	Chiquita Brands	3-0	Helix Resources	2-0	National Hire	2-0	Sonic Health	0-4
Acclaim Explor	3-0	Circadian Tech	3-0	Henry Walker E.	2-1	Neverfall Spr.	0-1	Soul Pattinson	10-0
Acma Engineer.	1-0	Citadel Pooled	1-0	Herald Resource	2-0	New Tel Ltd	0-1	Southcorp Ltd	9-1
Adacel Tech.	2-0	Cleland (P) Ent	1-0	Hill 50 Gold	8-4	Newcrest Mining	4-0	Spotless Group	4-0
Adelaide Bright	2-1	Climax Mining	2-0	Hillcrest Res.	9-0	News Corporatio	5-2	St George Bank	10-0
Adelaide Bank	1-0	Clough Limited	1-0	Hills Indust.	3-0	Noni B Limited	4-0	Sthn Cross Brd.	3-2
Adsteam Marine	5-0	CocaCola Amatil	2-1	Hitech Energy	1-0	Normandy Mining	1-7	Stockland Trust	1-0
Adtrams Group	0-4	Cochlear Ltd	0-1	Housewares Int.	4-0	Normandy NFM	1-2	Stockford Ltd	2-0
Arcor Ltd	7-0	Coles Myer	1-0	Hugall & Hoile	1-0	Northern Gold	1-0	Strategic Poole	1-2
Amity Oil NL	4-1	Colorado Group	2-0	Hydromet Corp.	1-0	Novus Petroleum	1-0	Strategic Min.	3-2
Amrad Corp.	4-0	Com'wealth Bank	8-0	IWL Limited	2-0	Nufarm Limited	5-1	Structural Syst	1-0
Anaconda Nickel	2-1	ComOps Limited	1-0	IXLA Limited	0-2	OAMPS	11-1	Sun Resources	3-1
Anzoil NL	3-0	Commander Comm.	4-0	Icon Energy	0-1	OPSM Group Ltd	2-1	Sundowner Group	2-0
Apollo Group	1-0	Computer Share	7-1	Iuka Resources	2-0	Oakton Limited	0-1	Sunraysia TV	1-0
Aquila Res.	2-0	Corp Express	3-1	Imperial One	1-0	Olea Australia	2-1	Swiftel	2-0
Argo Investment	12-1	Crane Group	4-0	Impress Venture	2-1	Online Advant.	2-0	Swish Group	2-1
Ariadne Aust	1-0	Cranswick Wines	4-0	Inovax Ltd	1-0	Orbital Engine	1-0	Symex Holdings	1-2
Ashburton Min.	1-0	Croesus Mining	1-0	Institute Drug	3-2	Orica Ltd	3-0	TAB Ltd	1-0
Atlas Pacific	0-1	DCA Group Ltd	1-0	Intermin Res	3-0	Oroton Int'l	2-0	TAB Queensland	4-0
Auspine Ltd	3-0	Dalrymple Res.	0-1	Investor Info	1-0	Oxiana NL	6-0	Takoradi Ltd	1-0
Aust Stock Exch	2-1	Data & Commerce	7-1	Joyce Corp.	2-0	PCH Group	0-1	Tamawood Ltd	3-0
Aust Magnesium	4-0	David Jones	4-0	JXLA Ross Rec.	3-0	PEG Technology	1-3	Tanami Gold NL	1-0
Aust United Gol	1-0	Devine	1-0	Jumbo Corp	0-1	PMP Limited	11-0	Tandou Ltd	1-0
Aust Pharm. Ind	2-0	Diamond Rose	1-0	Kagara Zinc Ltd	4-0	POS Media	2-0	Tassal Ltd	2-0
Aust Heritage	2-0	Div. United Inv	1-0	Kalrez Energy	1-0	Pac Strategic	2-0	Tech Investment	0-1
Aust Gas Light	16-0	Djerriwarrh	5-0	Kanowna Con Gld	1-0	Pacifica Group	6-0	Tech Star Ltd	0-1
Aust Foundation	7-0	E-Bet Limited	1-0	Kanowna Lights	1-0	Pacific Mining	0-1	Tempo Services	3-0
Austindio Res	1-0	E-Com Multi Ltd	1-0	Kimberley Oil	1-0	Paperlin X Ltd	6-0	Tennyson Netwks	7-1
Automotive Ind.	4-0	E-Star Online	2-0	Kimberley Diam.	0-2	Payne Consol.	4-0	Terraplanet Ltd	3-0
BHP Billiton	17-3	E.R.G.	0-1	Kingsgate Cons.	5-0	Perilya Mines	1-0	Text Media Grp	3-0
BRL Hardy Ltd	21-9	Ecorp Limited	0-1	Kingsstream St'l	1-0	Perp Trust Aust	11-2	Thin Technology	1-0
BT Aust Equity	7-0	Efinancial	1-3	Kresta Holdings	1-0	Peter Lehman W.	1-2	Ticor Ltd	1-0
BT Global Asset	1-0	Emitch Limited	1-0	Lafayette Min.	1-0	Plaspak Group	1-0	Timbercorp	1-2
Bank of W.Aust	1-0	Energy Develop.	3-2	Lake Technology	2-0	Platinum Cap'l	6-0	Toll Holdings	0-4
Barton Capital	1-0	Envestra	1-0	Lakes Oil NL	2-0	Poltech Int'l	0-6	Transurban Grp	1-0
Basin Minerals	0-1	Equigold NL	4-5	Legalco Limited	1-0	Portman Limited	0-6	Travel.com.au	2-0
Bass Strait Oil	2-0	Equs Limited	2-0	Leighton Hold	2-1	Precious Metals	2-0	Triako Res.	2-0
Beacon Fin Serv	6-5	Fairfax (John)	5-0	Lernarne Corp	3-0	Prime TV	1-0	Troy Resources	2-0
Bendigo Bank	4-0	Fiducian P Serv	1-0	Lend Lease Corp	3-0	Prime Life Corp	2-0	Union Capital	3-0
Berklee Ltd	1-0	First Wine Fund	6-0	Lighting Corp.	1-0	Publishing & Br	3-1	United Energy	1-0
Beyond Int'l	3-0	Flight Centre	2-0	Lion Selection	1-0	Q Multimediu	4-0	Utility Serv.	3-0
Biota Holdings	3-0	Foodland Assoc	2-0	Loftus Pooled	3-0	Q.B.E. Insur.	13-1	Vietnam Indust.	0-1
Biotech Capital	3-0	Fortland Hotel	4-0	Ludowici Ltd	2-0	Qantas Airways	1-0	Village Road.	0-1
Biron Capital	12-0	Found'n Health.	6-0	M.I.M. Holdings	2-0	Quadrant Irid.	3-1	Villa World	3-0
Boral Limited	5-0	Freedom Group	3-0	M.Y.O.B. Ltd	3-2	Queens'd Cotton	0-1	Vision Systems	3-2
Brambles Ind.	2-0	Funtastic Ltd	0-1	MXL Limited	4-1	Quiktrak Netwks	2-0	Vital Capital	1-0
Brandrill	0-1	Futuris Corp.	1-0	MacMahon Hold	4-5	R M Williams	4-0	Volante Group	3-0
Brazin Limited	4-0	G.R.D. NL	0-1	Macmin NL	4-0	RCR Tomlinson	1-0	W.M.C. Limited	1-0
Brickworks Ltd	13-0	G.U.D. Holdings	1-0	Macquarie Bank	7-2	RMG Limited	0-3	WAM Capital Ltd	1-0
Bristle Ltd	3-4	GWA Internat'l	2-1	Majestic Res.	1-0	Ramsay Health	3-1	Wadepack Ltd	2-0
Buderim Ginger	1-0	Gazal Corp	1-2	Matrix Metals	3-0	Ranger Minerals	0-1	Waterco Ltd	2-0
Buka Minerals	2-0	Genetic Tech.	3-0	Maxi TRANS	3-0	Rec. Solutions	0-1	Wattyl Ltd	1-0
Bunnings W/hse	1-0	Gindalbie Gold	1-6	Mayne Group Ltd	8-0	Reckon Limited	1-0	Wedgetail Exp.	1-0
Burswood Ltd	9-0	Gippsland Ltd	4-2	McGuigan Wines	5-0	Redflex Holding	0-1	Wesfarmers Ltd	14-7
C.S.R. Ltd	6-0	Giralia Res.	4-0	Mermaid Marine	1-3	Resolute Mining	1-0	West Oil NL	5-3
CCK Financial	1-0	Glengarry Res.	2-1	Metal Storm Ltd	1-0	Ridley Corp.	1-0	West'n Metals	6-0
CDS Tech	1-0	Global Seafood	2-1	Metroland Aust	2-0	Roc Oil Company	2-1	Westfield Hold.	4-1
CPT Global Ltd	7-0	Goldstream Min.	3-0	Michelago Ltd	1-0	Rock Build Soc.	0-2	Westgold Res.	2-0
CSL Limited	0-1	Goodman Fielder	1-0	Mikoh Corp.	4-0	Rural Press Ltd	1-0	Westpac Banking	3-1
Campbell Bros	6-3	Grand Hotel	12-0	Millers Retail	4-1	S.P.C. Ltd	11-3	Wet Dreams Ltd	5-0
Canbet Limited	2-0	Greater Pacific	3-0	Milton Corp.	4-0	STW Comm Group	0-1	Whitefield Ltd	0-1
Capral Alum.	4-0	Green's Foods	1-2	Mineral Commod.	1-2	Santos Ltd	1-0	Wide Bay Cap'n	2-1
Cardia Tech.	1-0	HGL Limited	1-0	Minerals Corp.	2-1	Schaffer Corp	4-1	Wine Investment	9-0
Carnarvon Pet.	1-0	Hallmark Cons.	13-3	Morning Star	1-0	Senetas Corp	2-0	Woodside Petrol	1-0
Carnegie Corp	1-0	Hamilton Island	1-0	Mosaic Oil NL	3-0	Servcorp Ltd	1-0	Woolworths Ltd	2-0
Carpenter Pac.	1-0	Hansen Tech.	0-1			Seven Network	2-1	Yamarna Goldfld	2-0

“Insider” Trades in Australian Shares

The table ranks Industry Groups by the average number of Net Buyers (i.e. Buyers less Sellers over the last year). Consistent buying across an Industry may indicate developments that are favourable for all companies within that sector, while consistent Industry selling may indicate an unfavourable outlook for that whole sector.

Rank	Industry Group	Insider Buy/Sell	No. Average of Buyers-Coys Sellers	Rank	Industry Group	Insider Buy/Sell	No. Average of Buyers-Coys Sellers	Rank	Industry Group	Insider Buy/Sell	No. Average of Buyers-Coys Sellers
1	Hospital Management	10-1	2 +4.50	24	Coal	6-0	9 +0.67	47	Health/Medical Services	8-5	19 +0.16
2	Diversified Mining	22-3	5 +3.80	25	High Technology	24-6	28 +0.64	48	Other Infrastructure	1-0	7 +0.14
3	Insurance	25-2	7 +3.29	26	Pharmaceutical	12-3	14 +0.64	49	Soft Drink/Confectionery	3-2	7 +0.14
4	Banking	51-6	15 +3.00	27	Property Investor	5-0	8 +0.63	50	Hotel/Resort	1-0	7 +0.14
5	Building Materials	37-5	15 +2.13	28	Television	7-2	8 +0.63	51	Other Telecommunications	5-3	21 +0.10
6	Publishers	20-1	9 +2.11	29	Wholesaler/Retail	7-1	10 +0.60	52	Mineral Sands	3-2	13 +0.08
7	Investment Trust/Company	51-5	26 +1.77	30	Gold Explorer	87-23	110 +0.58	53	Misc Industrial	17-14	42 +0.07
8	Trustee Company	17-7	6 +1.67	31	Oil/Gas Exploration	30-7	40 +0.58	54	Automotive	5-4	14 +0.07
9	Vintner	42-14	17 +1.65	32	Misc Services	31-7	46 +0.52	55	Gold/Copper	0-0	2 +0.00
10	Diversified Industrial	38-9	21 +1.38	33	Property Trust	20-0	46 +0.43	56	Network Operator	0-0	7 +0.00
11	Energy/Electricity	21-2	16 +1.19	34	Equity Investor	40-11	67 +0.43	57	Brewer	0-0	2 +0.00
12	Base Metals	27-3	21 +1.14	35	Entrepreneurial Investor	5-2	8 +0.38	58	Other Utilities	0-0	3 +0.00
13	Chemical & Fertiliser	15-6	8 +1.13	36	Building Contractor	11-7	11 +0.36	59	Heavy Engineer	0-0	2 +0.00
14	Forest Products	9-0	8 +1.13	37	Mineral Exploration	26-7	54 +0.35	60	Gold/Other Mining	0-0	3 +0.00
15	Manufacturer/Retailer	16-3	12 +1.08	38	Computer & Office Serv.	36-11	74 +0.34	61	Machinery Manufacturer	0-0	2 +0.00
16	Casinos/Gaming	19-1	17 +1.06	39	Engineering Contractor	1-0	3 +0.33	62	Uranium	0-0	2 +0.00
17	Oil/Gas Investor	2-0	2 +1.00	40	Oil/Gas Producer	9-3	18 +0.33	63	Mining Investment	0-0	3 +0.00
18	Food	30-10	23 +0.87	41	Health & Related Products	10-2	25 +0.32	64	Agricultural	2-3	17 -0.06
19	Retail	33-7	31 +0.84	42	Gold Producer	23-15	32 +0.25	65	Mining Services	0-1	16 -0.06
20	Diversified Media	31-9	30 +0.73	43	Mining Producer	3-0	13 +0.23	66	Diamonds	1-2	14 -0.07
21	Light Engineering	8-0	11 +0.73	44	Equipment/Services	13-2	51 +0.22	67	Leisure Activities	0-1	10 -0.10
22	Residential Developer	7-0	10 +0.70	45	Biotechnology	7-0	33 +0.21	68	Transport	3-4	9 -0.11
23	Misc Financial	34-7	40 +0.68	46	Property Development/Manager	3-0	18 +0.17	69	Advertising/Marketing	0-1	6 -0.17
								70	Gold/Investment	0-1	1 -1.00

Insider Buying Identifies Seven Attractive Technology Shares . . .

(This section is in Australian currency, unless stated.)

Company *insiders* are the most knowledgeable investors. So *insider* buying and selling data is a very reliable predictor of future share price performance. Consequently, *insider* trading data is an important indicator in our *Comprehensive Share Selection Criteria*.

Insider data can also be particularly useful for evaluating a company whose business is difficult to understand and analyse, and/or that releases little information to the market. For example, it is probably impossible for an outsider to accurately evaluate new ideas being developed by small technology companies. Estimating the revenues and profits that *may* be generated from new technologies is even more difficult. In this situation, the investment decisions of the directors - that is, whether they are personally buying or selling shares in the company - can be the most reliable guide to the potential future value of the shares.

We have therefore looked through the list of *Insider Trades* on Page 12 to find about 20 smaller to micro-cap technology companies where *insiders* are buying shares. We then examined these companies in more depth to produce a list of seven technology shares that are certainly worth watching closely - and in which many investors *may* wish to make small investments.

All of these shares are *neglected* by brokers. Only two brokers follow Adacel Technologies and only four brokers follow Biota Holdings - with no brokers following any of the other five companies closely enough to publish profit forecasts.

Adacel Technologies (code ADA).

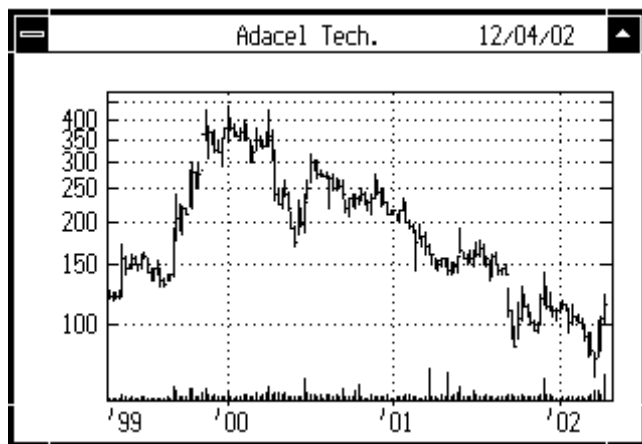
This is a quality growth company, with a \$57 million market capitalisation, that is generating strong revenue growth and *may* become profitable next year!

Adacel is a diversified software systems engineering company although Air Traffic Control software is emerging as a large and important part of its business. In November 2001 the company was awarded an A\$40 million contract to supply the core software for Lockheed Martin's US\$217 million Oceanic air traffic control system for the US Federal Aviation Administration. Adacel also provides a wide range of customers with air traffic control simulators.

The half year to December 2001 (with historical comparisons adjusted for an accounting change) show revenues up 140.3% to \$37.7 million but a bigger loss of \$3,387,000 (minus 6.8 cents per share). Future revenue growth - and further cost reductions - should see the

company become profitable in the June 2003 financial year. Adacel is in a strong financial position with positive operating cash flows, about \$6.5 million in cash and interest bearing debts of just \$3.1 million.

With high revenues (i.e. the shares trade on a Price/Sales ratio of only 0.95), insider buying and the likelihood of profitability next year, Adacel Technologies comes close to warranting a formal "Buy" recommendation. The main negative factor is the share price is in a strong downtrend. The shares peaked at 440 cents in December 1999 and have since lost 75% of their value. The Relative Strength Rating of -16.1%, ranked 83, suggests the shares will continue to underperform in the immediate future. Therefore the optimal time to consider buying Adacel Technologies shares is probably still at least 6-12 months away.



Biota Holdings (code BTA).

The market capitalisation of this biotechnology company is \$43 million. The company's work includes seeking treatments for the common cold and influenza, and it has also recently invested A\$8 million of "seed capital" to establish a US based company, **Biota Inc.** This US company will use the parent company's expertise and technologies to seek "rapid drug discoveries" targeting "multi-billion dollar markets" such as Hepatitis C.

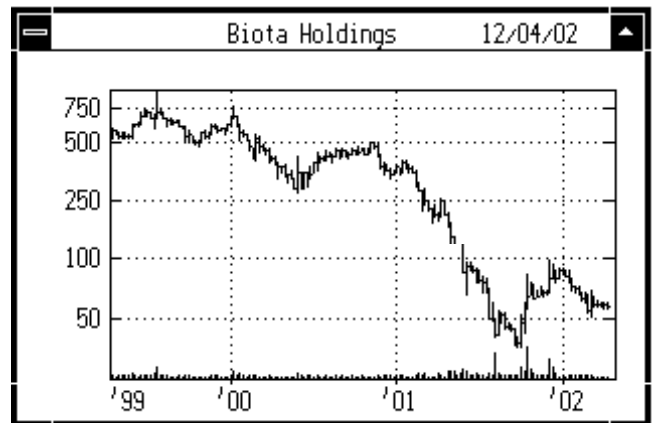
For the six months to December 2001, Biota generated revenues of \$6.1 million - mainly from diagnostic sales (\$4.1 million) and diagnostic profit shares (\$1.0 million) - but operated at a loss of \$3,283,000 (minus 4.4 cents per share) owing to \$5.8 million of expenditure on Research & Development.

Biota is also a cash rich company - at least relative to its current share price which has fallen considerably from its peak of \$9.00 in 1999 to around 58 cents at present. The company has cash of \$29.4 million (39 cents per share) and is seeking to conserve this cash through joint ventures to partially fund future research. In addition, the company has its \$8 million (10.7 cents per share) investment in Biota Inc which it intends to float on the US stockmarket to raise additional equity funding.

Three directors have bought shares over the last year: 30,000 at 95 cents in May, 50,000 at 46 cents in August and 100,000 at 45 cents in September 2001.

With cash flow and profits from existing products - plus cash and investments of 50 cents per share - Biota shares look to offer good value at 58 cents. The Relative

Strength rating, however, is unfavourable at -24.8%, ranking the shares at 91. So Biota shares may become even better value (i.e. fall further in value) over the next six months.



CDS Technologies (code CDX).

This \$63 million company is a world leader in developing and manufacturing non-blocking filter systems for removing solids from stormwater and sewer overflows.

The company has earned a maiden profit in the half year to December 2001. Revenues rose 206.6% to \$23.3 million and the profit was \$433,000 (1.3 cents per share). The business generates a positive operating cash flow and, following a placement of 3.0 million shares at \$1.10 last November, the company has cash of \$2.0 million and just \$0.3 million in interest bearing debts.

A recently announced joint venture will see **Hansen Pipes & Products** distribute CDS Technologies' filters in the US, where CDS Technologies already has a 20% market share. This arrangement will minimise CDS Technologies's marketing and overhead costs.

CDS Technologies is also the market leader in the UK (and expanding into Europe) following the purchase of a 76.5% shareholding in **Copa** in November 2000 for £2.2 million.

Revenues for the full year to June 2002 are predicted to rise 60% to \$40 million with a \$1.0 million (3.0 cents per share) profit, with revenues of a further 50% to \$60 million and profits up 300% to about \$4.0 million (12.0 cents) in 2003. Even those strong growth forecasts do not make the shares cheap. However, technological leadership of stormwater filtration is a very attractive niche market for CDS Technologies. There is nothing glamorous in this business, so potential competitors won't be lining up to design a better filter. The market for stormwater filters is also expected to expand considerably as environmental standards are raised and as water re-use becomes necessary. So this is a rapidly expanding market and the business *could* grow to generate very strong revenue and profit growth over the next ten years!

The shares peaked at \$5.00 in 1997 and declined to a low of 65 cents in September 2001 - but have since recovered *very strongly*. The Relative Strength rating of +26.5%, ranked 10, shows this is currently a top performing share.

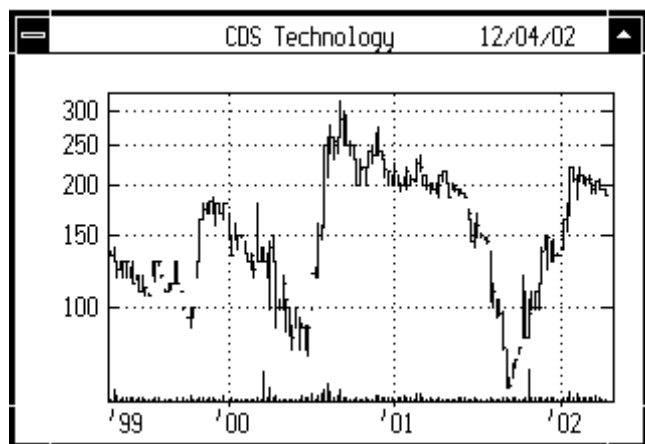
There has only been one (Continued on Page 12)

Technology Shares (Continued from Page 11)

insider trade over the last year when the Chief Executive purchased 122,000 shares on-market at \$1.02 in November 2001.

Relative to profits expected over the next couple of years, these shares are not cheap - but the company has a strong position in a niche market, so the business should be able to grow very rapidly. Rapid earnings per share growth could see the share price appreciate strongly over many years. The shares are in a strong uptrend, an *insider* has bought shares and the business is just *emerging* into profitability.

This situation (i.e. an emerging growth company) does involve high risks, but CDS Technologies will appeal to aggressive investors with diversified share portfolios. The share price could double over the next 12-18 months and increase 4-5 fold in value over the next 3-5 years!

**Circadian Technologies** (code CIR)

This \$90 million capitalisation company is involved in funding pharmaceutical research. Many successful projects have been floated on the Australian stockmarket, allowing Circadian Technologies to generate significant (unrealised) capital gains and accumulate a valuable biotechnology investment portfolio.

The company's cash and *listed* shares are worth \$143 million and include:

Metabolic Pharmaceuticals (MBP)	\$43.2 million
Axon Instruments (AXN)	\$41.8 million
Optiscan Imaging (OIL)	\$7.4 million
Antisense Therapeutics (ANP)	\$11.8 million
AMRAD Corporation (AML)	\$17.6 million
Cash	\$21.0 million

Circadian Technologies is debt free and also holds a number of unlisted investments and research projects. The book value of the listed investments is only \$23 million, and unlisted investments have little or no book value but can be very valuable. For example, Circadian owns 42.4% of unlisted **Syngene** - which also holds an \$11.8 million investment in Antisense Therapeutics. Other unlisted investments and projects include **Cancer Probe Pty** (30% owned), **Analgesic Project** (85.7%), **Yeast Mediated Reactions Project** (60%), **Cancer Research Project** (16.67%), **Circadian Rhythm Disorders Project** (60%) and **Memory Enhancement Project** (60%).

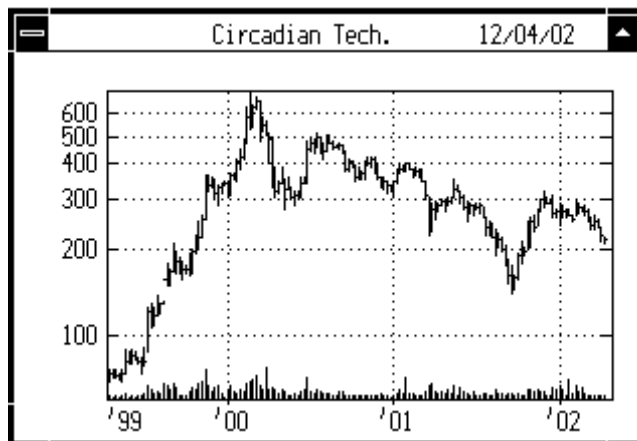
The stockmarket, however, currently prices

Circadian Technology shares at just 212 cents - which is a massive 37% discount to the company's listed investments and cash, and places no value on unlisted investments and research projects!!

By undervaluing both its listed investments (i.e. at cost of \$23 million, not market value of \$123 million) and its unlisted investments (i.e. at a book value of nil as expenditure is written off) Circadian Technologies has considerable hidden value and the shares trade at a significant discount to the real value of its investments and projects.

The company's small revenues come only from interest as the company is an investor in start-up research projects that are then floated on the stockmarket. This type of business will never generate revenue and profits *from operations* but has created significant wealth in the form of unrealised capital appreciation from the businesses created. It is therefore meaningless to try to assess this company using Price/Sales ratios or Price/Earnings ratios.

Two *insiders* bought 19-20,000 shares each at 174 cents near the low of last September and one of them purchased a further 9,635 shares at 245 cents last month. The shares have a slightly negative Relative Strength Rating of -3.3%, ranked 62, but are probably near their lows and may start a new uptrend over the next few months.

**CPT Global** (code CGO)

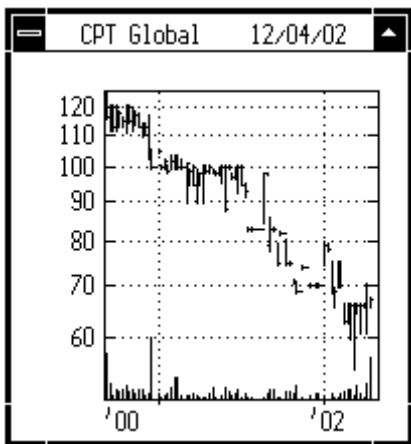
This \$21 million company has *most* of the things we would look for in an investment: a glitch (i.e. profits are down this year) to depress the share price, a (currently) unpopular business (i.e. IT services), a profitable business allowing the payment of dividends to shareholders, rapid expansion, a \$5.1 million cash hoard (and no interest bearing debt) and seven *insider* buys over the last year! What *doesn't* it have? *Positive* Relative Strength. Since listing in late 2000 the shares have steadily declined and lost half of their value. The share price is still in this downtrend, with a Strength Rating of -10.7%, ranked 76, so the shares may remain depressed and continue to under-perform in the short term.

For the six months to December 2001, revenues were steady at \$13.3 million but profits fell 82.7% to just \$158,000 (0.5 cent per share). The interim dividend was cut 25.0% to 1.5 cents - which indicates both (1) its strong financial position (i.e. a large cash holding, no debt) and (2) the directors expectation that the profit decline is

only temporary.

CPT Global offers recovery and growth potential, so its shares *could* become a very profitable investment. The directors certainly believe that is the case - and have been steadily buying shares over the last year. While we agree that the shares look attractive, we would like to see signs that the share price decline has ended (i.e. a *positive* Relative Strength Rating) before investing in this company.

With a market capitalisation of only \$21 million, and only small volumes of shares traded, CPT Global is probably too small to consider as a formal buy recommendation in Market Analysis - but aggressive investors should be watching this micro-cap company for an attractive buying opportunity!



Genetic Technologies (code GTG)

This company has a market capitalisation of \$95 million but its main assets are patents and technologies which are very difficult to value. *Insider* buying (i.e. from those people who understand the company best) may therefore be the only reliable indication of the value of these intangible assets and their potential to generate revenues and profits.

The existing biotechnology business was established as **GeneType** in 1989 and acquired by the company (previously called Duketon Gold) in 2000.

For the six months to December 2001 the company generated revenues of \$10.1 million - mainly from selling old mining investments - but lost \$4,962,000 (minus 1.9 cents per share).

Since then - in February - Genetic Technologies announced its first licencing agreement with **Genetic Solutions**. That company will pay an undisclosed up-front fee and undisclosed royalties on sales for non-exclusive access to the Genetic Technologies intron sequence and genomic mapping patents.

A second licencing agreement, with US based **Sequenom Inc**, announced in the last week - sending Genetic Technologies' share price up 40% - will earn an up-front licence fee of A\$1 million. The company is also in discussions with other major US biotechnology companies and hopes to start collecting fees from up to 50 companies over the next year.

The main potential for Genetic Technologies, however, lies in its patented *RareCollect* technique for extracting foetal cells from a pregnant woman's blood. This removes the risks currently involved in genetically testing a foetus. With 10 million babies born each year worldwide, a safe method of genetic screening could grow to become a very, very big business!

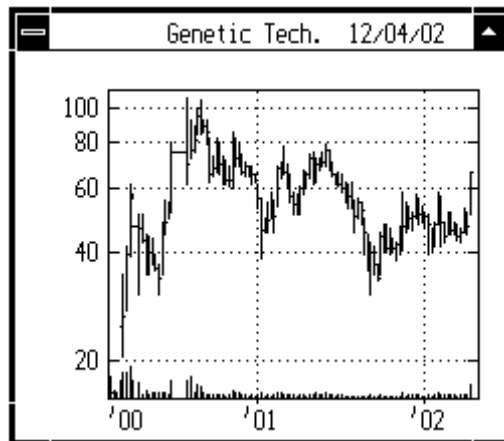
Genetic Technologies has cash of \$8.4 million (3.2 cents per share), no interest bearing debts, but few other assets in its balance sheet. The \$95 million market capitalisation therefore largely anticipates the future value of its patents. There is certainly a lot of *blue skies* potential in this company - so we would be very concerned if the directors were talking up the share price and selling shares! That, however, is not what is happening.

The Executive Chairman (who controls companies owning 98.0 million shares or 37.6% of the company) has steadily purchased more shares on-market over the last year. 90,000 shares were bought at 50 cents in August 2001, another 85,000 shares at 35 cents in October and 200,000 shares at 50 cents in February 2002. This takes his direct shareholding to 2,155,000 shares (0.8%) and his total shareholdings to 100,155,000 shares (38.5%). In general, one would *expect* such a large shareholder to be *selling* (to diversify his investments), so this insider buying is particularly significant and must indicate the Executive Chairman sees value in the shares!

Significant licence fee income may still be a year or two away - and perfecting and commercialising the *RareCollect* genetic testing may also take some time to develop into a meaningful business. The Relative Strength Rating, -2.1%, ranked 59, also gives few indications of the share price's trend in the near future. The shares rose 40% on last week's licensing news to 66 cents, but may drift back to around 45-55 cents over the next year - but success at building licence revenues or developing the genetic testing business could see the share appreciate many fold in value over the medium to long term!

Timing one's entry into this type of high risk/high potential situation is very difficult. Any investment in Genetic Technologies should make up only a very small part of a diversified portfolio - and even that small investment should probably be built up from several very small purchases spread across many months or years. Aggressive investors may wish to make a very small initial investment in these shares now - owing to their huge potential - but not add to that small position until the company makes tangible progress in realising the potential of its technologies.

In many cases it can take longer than originally anticipated to establish a new business - and the share price can weaken considerably if a company runs low on cash.



(Continued on Page 14)

Technology Shares (Continued from Page 13)**Lake Technology** (code LAK).

Lake Technology is a \$34 million company involved in developing "Digital signal processing" technology - which is used in **Dolby** headphones and in PCs. In 1998 Lake Technology licensed this technology to Dolby. Royalties are only now starting to grow rapidly and should soon become a major source of profits.

Revenues for the six months to December 2001 rose 197.7% to \$3.5 million although the company traded at a loss of \$1,583,911 (minus 1.4 cents per share). Further revenue growth should see the company close to break-even this year and probably becoming profitable in 2003. Royalty revenues will continue to grow as Lake's technology is included in more consumer products and PCs.

Lake Technology continues to have *negative* cash flows, with cash on hand at December 31 of just \$242,000 (but no significant interest bearing debts). Since then the company has raised A\$6.5 million from a placement of convertible notes (which convert to ordinary shares at 30 cents each) to Dolby Laboratories - which should see the company through to a time when it is cash flow positive.

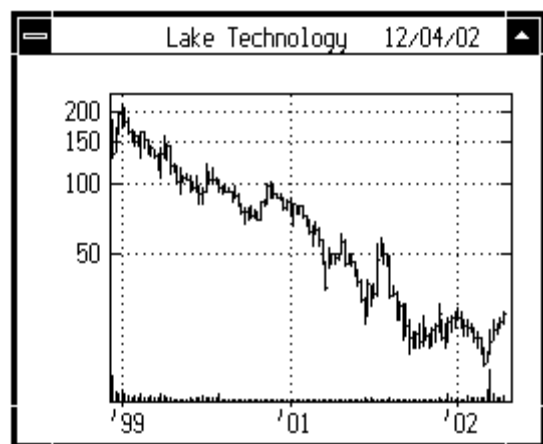
While Lake Technology continues to develop its intellectual property, its main investment value now lies in the growing royalties that it will receive in future years. There are few operating costs involved in this, so any increase in royalty revenues will flow straight through to profits.

Over the last month the Chairman purchased 21,284 shares on-market, while the Chief Financial Officer purchased 150,000 shares at 21 cents.

Lake Technology shares peaked at 215 cents in

January 2000 when it was widely seen as a "quality technology company with a real business". Slower than expected growth in royalties has led investors to downgrade expectations and the shares lost 92% of their value, hitting a recent low of 17 cents in March. Since then the shares have recovered to 28 cents, but the Relative Strength rating is still very weak at -19.2%, ranking the shares at 87 (on a scale of 0-99).

We believe that Lake Technology shares are probably near their lows and that the company's financial position will improve significantly over the next few years (i.e. it will generate strong cash flows and profits). While the shares are probably a medium to long term "Buy", the weak Relative Strength suggests the share price may under-perform in the short term. We would prefer to see more evidence that the long term share price decline has ended (i.e. a *positive* Strength Rating) before buying Lake Technology shares - and that situation may be as little as 3-6 months away!



Relative Strength Ratings and Moving Averages:

A small change to our Comprehensive Share Selection Criteria

We are making a slight change to the way we calculate our Relative Strength Ratings. Since before we began publishing *Market Analysis* (in 1981) the Relative Strength Rating has been calculated by finding the 13-week percentage change in the 40-week moving average of a company's share price. We are now changing this to the 13-week change in the 30-week moving average.

The Reasons for the change

This is a very minor change to fine tune our *Comprehensive Share Selection Criteria* by making the Relative Strength Rating a little more responsive to changes in share price trends. The objective is to enable us to buy into new investment opportunities slightly earlier and at slightly lower prices.

There are no "magic numbers" in stockmarket investing, so using a 30-week, 40-week or 50-week

moving average will give very similar results. A shorter term moving average will provide *earlier*, more timely "Buy" and "Sell" signals (i.e. allowing one to buy or sell earlier, at a better price) - but will also generate more false signals (i.e. unprofitable transactions) caused by random *short term* share price fluctuations. A longer term moving average will provide *later* signals (i.e. missing some of the early gains) but a higher probability of a profitable investment. The choice of the length of moving average is therefore determined by the trade-off between *timeliness* and *accuracy*.

Your Editor's original research determined that a 40-week moving average provided an optimal balance between timeliness and accuracy for the Relative Strength rating.

Since 1997, however, we have incorporated the

Relative Strength ratings in our *Comprehensive Share Selection Criteria*. The other indicators (i.e. valuation statistics, insider trading data) significantly improve the *accuracy* of "Buy" selections - so we are making this small change to the Relative Strength rating to shift its emphasis slightly in favour of improved *timeliness*.

This change should improve the timeliness of "Buy"

signals by only about 1-4 weeks. However, use of Relative Strength to buy into shares when they are starting new uptrends means the shares are usually appreciating rapidly in value. This apparently insignificantly small *time* advantage could yield a significant price advantage - allowing us to buy into shares up to 5-10% cheaper.

What is a "Moving Average"

As share prices can fluctuate widely it is often helpful to calculate an *average* price to smooth out these random fluctuations. In the stockmarket, such averages are often calculated over 13-weeks or 40-weeks - to measure *short term* trends or *long term* trends, respectively - but can be calculated over *any* period of time.

These averages are updated each week, by dropping off the oldest data and adding in the latest share price, so the average *moves* over time and are therefore called "moving averages".

A simple 13-week moving average would be found by adding up the weekly closing prices of a share over the last thirteen weeks and dividing the total by thirteen. This average would be updated each week by dropping the oldest price (i.e. from fourteen weeks ago) and the adding the last weekly closing price. This average *smooths* out random weekly fluctuations and the moving average reflects the overall trend in the share price.

While the simple moving average is easy to understand it has two problems. Firstly, it gives equal weighting to each price although the more recent prices are more important in determining the *trend* than the older prices. Secondly, fluctuations are determined by just two figures - the old value that is dropped from the total and the new value that is added.

One way to avoid these problems is the weighted

moving average which can give greater weighting (i.e. more importance) to the most recent price - and then progressively less weighting as prices become older until (as with the simple moving average) the oldest price is dropped from the total each week. The main problem with the weighted moving average is the complicated calculation - although this is not a problem for a computer.

A third alternative is the exponential moving average. This is similar to the weighted moving average but extremely simple to calculate. The exponential moving average gives a fixed weighting, called the *smoothing constant*, to the current share price and the remaining weighting to the previous week's moving average.

The smoothing constant is:
$$\frac{2}{(\text{m.a. length} + 1)}$$

So the smoothing constant for an exponential moving average equal to a 13-week simple moving average would be 0.14, i.e. $2/(13+1)$. The current value of a 13-week exponential moving average will therefore be 0.14 times current share price plus 0.86 times *last week's* moving average.

Exponential moving averages are theoretically superior to simple moving averages - and also tend to work better in practice! This is the type of moving average that we use in all applications.

What are "Relative Strength" Ratings

The term *Relative Strength* is widely used in the stockmarket to measure how fast a share is rising or falling in value - although there is no agreement on *how* this rate of price change should be measured!

Some original research into Relative Strength was conducted in 1967 by Robert Levy who measured *the percentage that the current share price was above or below its 26-week moving average* and then ranked the shares from *strongest* (i.e. the biggest historical gains) to *weakest* (i.e. the biggest historical losses). The strongest shares tended to continue to outperform the market in the future, while the weakest shares tended to continue to underperform the market.

Norman Fosback's 1976 book *Stock Market Logic* describes his research into Relative Strength and provides more evidence of the usefulness of this share selection technique. Fosback measured *the 13-week percentage in a 30-week moving average*.

Your Editor's private research into Relative Strength during the late 1970's used a similar method of calculation as Fosback, but settled upon the 13-week change in a 40-week moving average. We are now changing this to the 13-week change in a 30-week moving average to provide greater sensitivity to *changes* in long term price trends.

James O'Shaughnessy's 1998 book *What Works on Wall Street* confirms the predictive value of Relative Strength. O'Shaughnessy's relative strength measurement was simply the *change in the share price over the last 12 months*.

As the *number* of shares varies between stockmarkets (i.e. 140 shares in NZ, 1300 shares in Australia), and over time (i.e. there were 290 NZ companies listed in 1987) we *rank* shares from strongest to weakest on a scale of 0-99. Shares ranked 0-9 are therefore the 10% strongest in any market, while shares ranked 90-99 are the very weakest.

"Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares (Mill)	% of Coy Held	
				Before	After
08/03/2002					
F & P Healthcare	LFG Holdings	Buy	+1.200	6.87%	8.04%
Hellaby Holdings	Quatro Mgmt	Buy	+0.555	7.65%	8.76%
15/03/2002					
Affco Holdings	Talley Fisheries	Buy	+3.223	28.71%	29.90%
Bendon Group	Pacific Retail	Buy	+1.127	20.14%	23.79%
Evergreen Forests	Arnhold & Bleich.	Buy	+0.444	4.77%	5.04%
Evergreen Forests	Hambrecht & Quist	Sell	-2.034	7.53%	6.26%
22/03/2002					
Bendon Group	Pacific Retail	Buy	+3.741	23.79%	35.90%
Mainfreight	Harris Associates	Buy	+0.680	5.41%	6.41%
Rubicon Ltd	Tower	Buy	+3.250	5.13%	6.29%
Southern Capital	AXA Asia Pacific	Buy	+10.761	0.0%	13.84%
Telecom NZ	AXA Asia Pacific	Buy	+95.029	0.0%	5.09%
Tranzrail Holdings	AXA Asia Pacific	Buy	+8.823	0.0%	7.28%
Wellington Drive	AXA Asia Pacific	Buy	+11.097	0.0%	10.67%
29/03/2002					
Bendon Group	Pacific Retail	Buy	+17.210	35.90%	91.62%
Bendon Group	UBS Nominees	Sell	-2.258	7.32%	0.0%
Certified Organics	Ambergate	Sell	-67.265	10.34%	7.52%
Mainfreight	Harris Associates	Buy	+1.460	6.41%	8.52%
Renaissance Corp	MR Thompson	Buy	+1.755	50.45%	55.18%
05/04/2002					
Hallenstein Glasson	AMP Henderson	Sell	-1.357	11.79%	9.33%
12/04/2002					
Seafresh NZ	JH Slade	Buy	+37.263	0.0%	56.46%

Dividend \$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Arthur Barnett	3.00	15-04	19-04	Nil
Briscoes Group	3.25	22-04	10-05	Full
Capital Properties	2.175	25-03	03-04	0.35
CDL Hotels	0.70	01-04	09-04	Full
CDL Hotels (special)	0.70	01-04	09-04	Full
Colonial Motor Company	9.00	25-03	10-04	Full
Contact Energy	2.50	27-05	31-05	Full
GDC Communications	1.75	29-04	03-05	Full
GPG	1.00p	02-04	13-05	-
Hallenstein Glasson	9.00	22-04	26-04	Full
Newmarket Property Trust	2.824751	25-03	28-03	0.310696
Powerco	7.20	17-06	28-06	Full
Restaurant Brands	8.00	20-05	29-05	Full
Scott Technology	3.00	29-04	01-05	Full
Sky City	15.50	18-03	05-04	Full
Warehouse Group	9.50	15-04	22-04	Full
Williams & Kettle	11.00	15-04	29-04	Full
Australian Shares				
Abigroup	4.00	23-03	15-04	-
Atlas Pacific	2.00	09-04	26-04	-
Cellnet Telecommunications	4.00	18-03	28-03	-
McPhersons	6.00	03-04	30-04	-
Nufarm	7.00	08-04	26-04	-
Skilled Engineering	4.00	02-04	24-04	-
Toll Holdings conv notes	55.505	10-03	02-04	-
Utility Services	2.00	09-04	30-04	-
Vision Systems	1.80	08-03	09-04	-

Current Issues

BONUS ISSUES

	Ratio	Ex-Date
NZ Oil & Gas (1)	1:2	May/June
(1) NZ Oil & Gas plans to issue one free option (probably to buy shares at 60 cents until July 2005) for every existing share <i>or option</i> currently held.		

SHARE REPURCHASES

	Details
Designer Textiles	5%, on-market
Ports of Auckland	1 in 5, @ \$5.00/share
Utilico International	7½%, on-market

CASH ISSUES

	Ratio	Price	Ex-Date	Appln Date
Commsoft	2:1	A\$0.01	12-04	08-05
Mr Chips Holdings	3:10	100	25-03	26-04

NEW ISSUES

	Price	Date	EPS	DPS
Straightedge Ltd (NCM)	-	-	-	-

Total Return Index for All Listed Shares

Mar 11	2084.19		
Mar 12	2083.47		
Mar 13	2064.34		
Mar 14	2060.42		
Mar 15	2055.31		
Mar 18	2061.16	Mar 25	2041.77
Mar 19	2055.06	Mar 26	2050.42
Mar 20	2053.81	Mar 27	2043.45
Mar 21	2053.27	Mar 28	2060.22
Mar 22	2053.42	Mar 29	Holiday
Apr 1	Holiday	Apr 8	2044.45
Apr 2	2053.82	Apr 9	2029.14
Apr 3	2052.23	Apr 10	2031.75
Apr 4	2048.03	Apr 11	2033.20
Apr 5	2042.30	Apr 12	2025.00

Next Issue

The next issue of *Market Analysis* will be posted in four weeks time on Tuesday May 14, 2002 (and delivered in most areas on Wednesday 15).

Subscribers who have updated their account online with an e-mail address will also receive the Electronic version in their e-mail Tuesday morning.

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